NOTES

STOCK-EXCHANGE REGULATION IN GERMANY

History of the purely speculative phase of economic activity is repeating itself in a remarkable manner. The agitation in Washington for some legislative measure calculated to stop, or at least in some degree to curb, speculation in securities and commodities, and the avalanche of bills to the same effect poured upon many of our state legislatures, especially in the commonwealths west of the Mississippi, mark a phase of economic regulative policy similar to that attempted in France a century ago. One might conclude that our statesmen are celebrating the centennial of Napoleon's measures to control the Paris bourse by providing embarrassment for the American exchanges, were one quite sure that these statesmen are cognizant of what took place a century ago.

It is to be assumed, however, that our legislative representatives do not know what happened in France in 1808; otherwise they would be, perhaps, less zealously confident in their reformatory proceedings. As Napoleon failed to "regulate" the Paris mart after the manner proposed by himself, so American statesmen of today are threatened with failure in their effort to regulate the exchanges here after the manner proposed by themselves.

They may, however, be consoled by the reflection that from Napoleon's time to the present every endeavor to subjugate the exchanges, to extirpate speculation, has been futile—ultimately. Bourses have been restricted in their operations for a time—have, indeed, been closed—speculation has been extinguished for a period, but in the end the power on 'change has ever reasserted itself.

The latest striking example of this is to be found in Germany, specifically in Berlin, where the Reichstag promises to agree with the government that conciliatory steps be taken toward the bourse, in substitution for the laws passed in 1896. Such reversal of policy is not a new experience of Germany, or more precisely, for Prussia. The Prussian government has intervened frequently in the affairs of the Börse—more frequently, it is suspected, when the government's, rather than the public's, interests have been jeopardized. The first noteworthy intervention

was in 1836, when part of a large Spanish loan was offered in Berlin. The government then had direct supervisory power over the business done in Prussian and in foreign government bonds. It abruptly nullified all time trades made in the Spanish security. Six years later, the same sort of edict was promulgated against all dealings in foreign bond issues. In 1844, when speculations in railway shares had reached what the cabinet deemed a "menacing degree," the finance minister took it upon himself to declare "all transactions for future delivery null and void." Exceptions were at that time taken to the government's right to interfere in the share market, and the courts sustained the objections. In the instance of the nullification of the bond deals, the government was accused of having interfered for the selfish reason of wishing to preserve a market for its own bonds; in other words, in periods when the monetary situation in Prussia was the reverse of opulent, when Prussia's credit was not of the highest, the government wanted whatever Prussian money was to be had for bonds, to go into Prussian and not into Spanish and other bonds—the policy was one of preserving Prussian money for Prussian bonds exclusively.

The rulings of the government were tenaciously remembered by the opposition, and when a comparatively liberal régime came into power in 1860 the law permitting the government to nullify transactions in any security inclusive of bonds was abrogated. The government, however, retained—and still retains—a certain power in Börse matters, which is tantamount to a supervision of the trading in government bonds. Of the two classes of brokers in Berlin only one is permitted to deal in bonds at all—the *vereidigte Makler,* or sworn brokers, whose privilege is conditioned upon holding an expensive membership ticket, who must demonstrate financial stability and integrity, and whose books at any time may be inspected by a government commissioner, an official who in this respect has pretty much the same power as our comptroller of the currency.

All this by way of introduction. The present exchange campaign in Berlin—practically to rescind the law passed twelve years ago—had its beginning in the early '90's.

The insolvency of the Barings in London gave Berlin a shock. While the Germans had no money with the bankrupt firm, they had invested considerable money in Argentina, the country in which the Barings had put some $75,000,000. Directly in the wake of this

came one of the most outrageous attempts to corner a cereal ever perpetrated. A group of plungers headed by Ritter and Blumenfeld, at that time a prominent grain house in the German capital, began to buy "all the wheat in sight," to use a board of trade colloquialism. They not only enlisted the financial services of a number of Berlin and provincial bankers, but later in the game—when the situation had become desperate—they succeeded in corrupting certain railway officials, so that the latter wilfully retarded shipments of wheat into Berlin.

The corner failed, and its failure implied irretrievable disaster for many who were implicated, disgrace for all concerned, and a national scandal. The private banking houses of Hirschfeld and of Wolf were made bankrupt. Two directors of the Rheinisch-Westphälische bank were sent to prison. A run on the banks ensued. A few months later a severe slump in stocks sent a number of brokerage firms to the wall.

It was an ideal opportunity for legislators of half-information, actuated by prejudice and by a burning zeal to protect the public from the machinations of gamblers in stocks and grain, to assert themselves, and they availed themselves of it with avidity. They offered resolutions in the Reichstag demanding from the government a bill against the abuse of gambling on the Börse. A year later a multitudinous commission was appointed to investigate the subject to the last analysis. It held many and protracted sessions and finally reported in the early months of 1893. But it was not until February, 1895, that the government submitted an extensively incubated reform measure, which was trimmed severely by the Reichstag Committee.

In brief, there had been three propositions: The first, to exact a huge deposit from both parties to every transaction; the second, to limit trading in futures to members of the Börse; the third, the "registration" exaction. The last-named was adopted and presented to the Reichstag. To stop gambling on 'change the government proposed that a public record be kept of all traders on time deals. As designed, this record was to make a sheer distinction between the "professional" and the "outsider." The law furthermore provided that an unregistered person could not make a valid deal in futures, and in order to restrain brokers from executing time orders for him it was stipulated that he might at any time demand from the firm with whom he was doing business the return of any

securities or moneys deposited as a margin. The registration fee was 500 marks; there was also an annual tax of 100 marks.

The purpose was plain—admitted by the government during the debates on the bill—to bring odium upon people who registered. Men engaged in other business, professional men, capitalists, and others, would not care to announce themselves publicly as speculators on the exchanges. Moreover the registration meant a potential supervision of both parties by the government.

But the bill did not go far enough for the Reichstag as a body. The members added two very sweeping riders. They enacted that seven of the most important industrial stocks listed on the Börse be stricken off the list—the stocks that created seven-tenths of the share trading. It was as if the certificates of the United States Steel Corporation, the American Sugar and Refinery Company, and similar issues had been dropped from the New York Stock Exchange roster. Secondly, futures in grain were prohibited. The government protested against the second amendment vehemently but vainly. It argued the necessity for a strong grain market, insisting that such a market could not be had without letting all regular grain merchants, millers and large producers trade in options.

The effect of the law was curious. Very few people registered, but they did not, for a time, cease speculating. The dishonest among these persons, who tried to live by an aleatory business, used the law as a subterfuge to avoid payment of their obligations; for a broker could not collect a debt from an unregistered client. It was found that unscrupulous speculators would buy at one office and sell—the same stock—at another pocketing the gains of the one and repudiating the loss of the other. In the shares that were stricken from the list, the trading was necessarily of a "curb" character; that is, they were handled outside of the exchange, where the fluctuations were so wild and violent that bankers deemed it unsafe to make loans on them. In the meanwhile, speculation on foreign bourses from Berlin increased in about the same proportion as it had decreased on the Berlin Börse by the elimination of the seven industrials.

Price tables have been published tending to prove that since the abolition of futures on grain the German farmers have not been getting as good prices for their commodity as the situation in the world's markets would have entitled them to, and that prices

have fluctuated more sharply than before 1897. Comparisons with outside markets just across the frontier—Amsterdam and Antwerp—show that the German farmers have not been able to get as great advantages from the customs duty on grain as they secured under the old system.

The government now proposes a reform of the reform measures adopted in 1896. It asks the Reichstag to abolish the register, and in its stead to make use of the ordinary commercial register of trading firms in order to determine a man's competence to make a time bargain; it asks permission to legalize a form of future delivery dealings which has of late come into vogue under the tacit consent of the government itself—come into vogue under the regnant bourse law. These are transactions in terms of the commercial code which avoid enough of the earmarks of the law's definition of futures to satisfy the authorities. The deals may be insured by hedging operations. Hence the requirements of the trade, professionally considered, are in a way met. But the Berlin grain trade has become very narrow. Vienna has surpassed Berlin as much as Budapest has surpassed Vienna.

The Berlin Börse has reciprocated government favor. Just as the government has not been too textual in enforcing the provisions regulating grain trading of the twelve-year old law, so the Börse has acted on the suggestions of the government in political exigencies. When Russia was at war with Japan, the governors of the Börse forbid the short sale of any government bond including that of Russia, this on the request of the ministry. Some deals of the kind were made, but in two instances where the losing party appealed to the courts the transactions were nullified.

In conclusion it may be observed, as economists have frequently urged, that there is speculation and speculation—speculation which is legitimate and beneficial, and speculation which is injurious. The case is well summed up by a French economist as follows:

> If it were possible to have speculation pure and simple without stock-jobbing, the tone of the business world could be higher; therefore, greatest liberty should be allowed to speculation, while stock-jobbing should be severely penalized. Unfortunately, to effect this second result is a matter of great difficulty. Very often laws dealing with exchanges have in view only the punishment and suppression of stock-jobbing; in reality, however, they effect the embarrassment of speculation, which is sane and honest, thus creating conditions favorable to stock-jobbing itself, against which no weapon

is so powerful as the normal and free functioning of legitimate speculation. Members of the bourse are so vitally interested in eliminating disreputable and the dishonest gamblers, that no other power in the world can be more severe and more pitiless in persecution.[1]

EMIL FRIEND

CHICAGO

WASHINGTON NOTES

THE VREELAND CURRENCY BILL
CURRENCY MANIPULATION IN THE HOUSE
A DANGEROUS FISCAL SITUATION
INVESTIGATION OF COTTON FUTURES
A NEW TARIFF COMMISSION
THE WOOD PULP AND PAPER INQUIRY

Currency developments during the past month have centered very largely around the so-called Vreeland currency bill (H. R. 21,414). This bill was an unexpected factor in the currency situation, being introduced in the House by Mr. Vreeland of New York, its putative author, distinctly as the representative of Speaker Cannon and the little group of House leaders. Mr. Vreeland's bill rapidly passed through three distinct forms. In its original form, it contained the bulk of the provisions of the Aldrich currency bill as the latter measure passed the Senate. The main features eliminated from the Aldrich bill were the prohibition to banks to make loans upon the securities of corporations in which their officers were interested and the section changing the distribution of reserves. There was interpolated a section authorizing any number of national banks not less than ten and having a capital of not less than $10,000,000 to unite in a clearing-house association for the issue of notes based upon commercial assets deposited with these clearing houses. Banks were to secure the issue of clearing-house certificates by these associations, the certificates being later forwarded to the Treasury Department, there to serve as the basis for the issue of bank notes. The second form of the Vreeland bill retained all of the principal features of the original measure but raised the total volume of emergency notes which could be issued under it to $750,000,000 instead of $500,000,000, reduced the required combined capital of the clearing-house banks to $5,000,000 instead of $10,000,000, and somewhat changed the conditions of taxation subject to which the emergency notes were to be put out. The third form of the Vree-

[1] *La loi allemande sur les bourses* (Etude d'Economie Politique), by Carl Pieckenbrock.